



TENNESSEE

Real Estate Appraiser Report Real Estate Appraiser Commission Tennessee Department of Commerce & Insurance

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Chairman's Report

Lou Bratton

At times, it appears that there are misconceptions about the interview process in regards to trainee experience. As the name implies, the process is about training qualified people to perform real property appraisals in an appropriate manner as outlined by the Uniform Standards of Professional Appraisal Practice (USPAP). It is incumbent upon the sponsors to ensure that each trainee receives adequate guidance and courses to effectively accomplish this goal.

The experience interview is a vehicle to determine if trainees are getting appropriate education and guidance in applying appraisal theory and techniques to real world appraisal problems. In performing assignments, trainees must understand and adhere to USPAP and State Laws. When interviewed by the Real Estate Appraiser Commission, the trainee should be prepared to discuss

methods and techniques used in their work product presented to the commission, as well as approach or approaches omitted.

When using the cost approach, the trainee should be able to explain and support (i.e. contractor estimate, cost services, etc.) their cost estimate, as well as their method and amount of depreciation. The Real Estate Appraiser Commission realizes that there are various methods of estimating depreciation, but it is expected that the amount be supported from market as opposed to a mere guess. It is recognized that some forms, especially residential forms, are not designed to provide an extensive area for an analysis of land value. However, it is imperative that the trainee provide support for a lot value in his or her work file or if desired in an attachment to the report.

In the sales comparison approach, the trainee is expected to use appropriate verified sale transactions and demonstrate his or her ability to apply supported

market adjustments to arrive at an indication of the subject property.

Relative to the income capitalization approach, the trainee is expected to be able to properly verify sales and develop capitalization rates and discount rates when appropriate to be applied to the subject property. The trainee should be able to explain the derivation of these rates. It is expected that the trainee has a working knowledge of operating statements and can properly prepare a reconstructed operating statement for the subject property.

In summary, the interview is to ensure that each trainee has an adequate foundation to perform appraisals which, at minimum, meet the guidelines of the Uniform Standards of Appraisal Practice as adopted by the Appraisal Standards Board of The Appraisal Foundation. In preparation for the experience review, it is suggested that the trainee review their submitted work product and file before the meeting and be able to address the areas cited above.

INFORMATION FROM THE TREAC OFFICE

RULES HEARING IN JULY (TENTATIVE)

The Commission has scheduled a tentative rulemaking hearing on proposed rules for Monday, July 14, 2003, Room 160, Davy Crockett Tower, Nashville, Tennessee.

Some of the proposed changes include:

- 1) removing the five (5)-year requirement for USPAP and requiring instead the National seven (7)-hour course for the two (2)-year renewal period,
- 2) Limiting the number of trainees to three under a supervisory certified appraiser,
- 3) Requiring continuing education for trainees after the initial two (2)-year training period,
- 4) Addressing distance education for continuing education, and
- 5) Reducing experience credit hours for limited reports.

To request a copy of the proposed rules, please contact the office at 615-741-1831 or visit the web site www.state.tn.us/commerce/boards/treac under "News from the Board."

National USPAP Requirements for Continuing Education

When the proposed rules become effective, the seven-hour national USPAP will be a

requirement for renewal. No licensee whose license or certificate expires in 2004 or 2005 can renew without the required course.

Out-of-state licensees will only be required to take the course once during a two-year period but will provide, as usual, a copy of the current resident license or certificate.

There will **no** exceptions to this rule and no extensions granted for renewal. Persons who have taken the course this year may use the course for renewal even though the rules are not in effect at this time.

Applications for Licensure/Certification

All applications for licensure or certification should be received in the Commission office at least 30 days in advance of a scheduled meeting to ensure placement on the agenda for that meeting. Please keep in mind that meetings are often cancelled due to budget concerns.

Prior to an individual submitting an application for upgrade, the applicant must have obtained all of the education and experience required for the appraiser classification for which applying. Applications that do not contain all of the qualifying criteria will be retained until the appropriate education or experience has been completed.

TREAC Updates Website

The Commission website has changed its URL address and the format. The new address is www.state.tn.us/commerce/boards/treac.

Our goal is to facilitate use of the applications, forms and other licensing materials on the site. In addition, efforts will be made to more frequently advise the licensees of pertinent changes or clarifications in the real estate appraiser licensing program.

We invite your comments and suggestions. We will continue to make changes as the need arises. We invite you to complete the website evaluation form, found on Page 7 in this newsletter, to aid in our enhancements to the site. The form is also available on the site under Forms.

Tennessee Appraiser Appointed to International Appraisal Board

Nashville appraiser Danny Wiley has been appointed to the International Appraisal Standards Board of the International Valuation Standards Committee (IVSC) for the year 2003. The role of the Standards Board is to monitor, review, modify and produce global appraisal standards. Currently, there are over fifty countries on the IVSC.

Mr. Wiley, who is also serving his second year as chair of the Appraisal Standard Board of The Appraisal Foundation in the United States, attended the International Standards Board Meeting on March 29th and 30th in Cape Town, South Africa. More information on the IVSC can be found on the Internet at www.ivsc.org.

MOST COMMON

USPAP ERRORS

Carlos Carter

This article is provided by Carlos Carter, an instructor of the Tennessee Real Estate Education Systems (TREES).

The primary objective of the Uniform Standards of Professional Appraisal Practice (USPAP) is to promote and maintain a high level of public trust in professional appraisal practice. USPAP provides a means for promoting that professionalism by establishing a set of objectives based on a public purpose, which are described in the PREAMBLE.

The PREAMBLE states, *it is essential that professional appraisers develop and communicate their analysis, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.*

Many appraisers have asked what the term "meaningful" means. The AQB Instructors Certification Course taught by the ASB states that the term "meaningful" implies that the appraiser's solution is "relevant" to the client's problem and "adequate" for the intended users.

The required end result of all real property appraisals is the same -- it must be credible. This concept is obvious by the requirement in Standards Rule 1-1 -- *in developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal*".

The purpose of this article is to focus on common errors or deficiencies in appraisals as reported by various users of appraisals and State Regulatory Agencies. It is intended only for information and is not, on my part, a suggestion that any appraiser is violating

USPAP. Following is a list of some common errors or deficiencies.

1. Failure to develop an opinion of site value in the cost approach by an appropriate appraisal method or technique and supporting that opinion with market data.
2. Failure to apply a particular approach to value when that approach is applicable and necessary to produce a credible result. This is particularly true when the client requests an appraisal and indicates he/she doesn't need the cost approach, such as in the use of forms such as the 2055 form.
3. Failure to prominently state which reporting option is used.
4. Failure to develop and report an opinion of reasonable exposure time linked to the value opinion. (Many appraisers develop an opinion of reasonable marketing time and ignore the reasonable exposure time. Opinion of reasonable exposure time is a USPAP requirement; opinion of reasonable marketing time is a Supplemental Standards requirement.)
5. Failure to report the proper definition of value and/or failure to report the source of the definition value.
6. Failure to comply with applicable Standards Rules when communicating an oral appraisal report. Example: A client request the appraiser to see if the value will be at least \$XXXXXX and states that if you can't make the value do not do the appraisal but call them and let them know that you can't make

the value. Appraisers should be aware that if they report that the value of the property is less than the requested amount, they have done an appraisal. They must prepare a work file and, at a minimum, comply with the requirements of Standards Rule 2-2(b) (Summary Appraisal Report).

7. Failure to state the use of the property as of the effective date of the appraisal and the use of the property reflected in the value opinion.
8. Failure to develop and report the Scope of Work necessary to complete the assignment.
9. Failure to identify and report any extraordinary assumptions and/or hypothetical conditions necessary in the assignment in accordance with USPAP.
10. Failure to develop an opinion of highest and best use and/or report the reasoning that supports the opinion, when applicable.
11. Failure to analyze current agreement of sale, option or listing of the property, when the information is available to the appraiser in the normal course of business.
12. Failure to analyze all prior sales of the subject property that occurred within the applicable required time period. (Appraisers should be aware that, effective January 1, 2003, USPAP requires appraisers to analyze and report all prior sales of the property that occurred within the past three (3) years). This includes one- to-four family

residential properties as well as other properties.

13. Improper use of the Departure Rule or stating that a Specific Requirement is not applicable when it is. This often occurs with the use of certain forms such as the 2055 form. Appraisers should be aware that USPAP does not address forms. The appraiser must supplement any form that does not conform to USPAP to make sure that the appraisal and report is sufficient to conform. Appraisers often omit the cost approach when using the 2055 form because the client doesn't want the cost approach or there is no place on the form for the cost approach. These are not valid reasons for omitting the cost approach. If the cost approach, or any other approach, is not applicable omitting that approach is not departure and it does not result in a limited appraisal. The only way to create a limited appraisal is by departing from one or more of the Specific Requirements. The only time that departure from a Specific Requirement is acceptable is when the Specific Requirement is applicable but not necessary to produce credible results.

This is just a sampling of the most common errors and deficiencies reported by users of appraisal services and regulatory authorities. Appraisers who only take the USPAP course every five years, as required, and do not read and study the updated versions to remain current might be contributing to the errors and deficiencies unknowingly. Remember,

it is the responsibility of the appraiser to remain current and know USPAP requirements.

I sincerely hope this article has contributed to appraisers' awareness. I urge all appraisers to obtain current issues of USPAP as they are updated and remain current and knowledgeable as to the content therein.

APPRAISAL STANDARDS BOARD USPAP Q&A

Question:

I understand that USPAP has been revised to require real property appraisers to analyze all sales of the subject property that occurred in the three years prior to the appraisal date, even for one-to-four family dwellings. Is this true?

Response:

Yes. As of January 1, 2003, Standards Rule 1-5, a binding requirement, has been modified to read as follows:

In developing a real property appraisal, when the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:

- (a) *analyze all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal; and*
- (b) ***analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal.***

Comment: See the Comments to Standards Rules 2-2(a)(ix), 2-2(b)(ix), and 2-2(c)(ix) for corresponding reporting requirements relating to the availability and relevance of information. (Bold added for emphasis)

For analysis and reporting of prior sales, previous editions of USPAP made a distinction between the time period required for one-to-four family residential properties and the time period required for all other types of real estate. That distinction no longer exists. The three-year time period now applies to all real property appraisals.

Question:

I was told that as of January 1, 2003, USPAP now requires real property and personal property appraisers to analyze previous sales of comparable properties used in the sales comparison approach to value. Is this true?

Response:

No. The 2003 edition of USPAP includes changes to SR 1-5 and SR 7-5 regarding the analysis of prior sales of the **subject property only**. USPAP does not require analysis of the sales history of comparable sales. However, appraisers may be subject to Supplemental Standards in certain appraisal assignments that require the appraiser to provide a more detailed analysis than otherwise required by USPAP.

Question:

I noticed that the 2003 edition of USPAP no longer contains SR 1-5(c) or SR 7-5(c). Does this mean the reconciliation process is no longer required by USPAP in real property and personal appraisal assignments?

Response:

No. In fact, USPAP has been modified to emphasize the importance of the reconciliation process. Standards Rules 1-5(c) and 7-5(c) were removed and Standards Rules 1-6 and 7-6 were inserted in order to clearly demonstrate that reconciliation is a separate component of the appraisal process rather than a

function within the analysis of sales history.

Response:

Yes. Advisory Opinion 4 (AO-4) states:

The intent of Standards Rules 1-5(b) is to encourage the research and analysis of prior sales of the subject property. All sales of the appraised property within the three-year time period stated in Standards Rule 1-5(b) includes transfers in lieu of foreclosure and foreclosure sales.

This AO goes on to state:

Foreclosure sales and voluntary transfers of title by mortgagor to mortgagee in lieu of foreclosure are transactions grounded in objective necessity. Nevertheless, they are sales because they transfer ownership of and title to property for a valuable consideration.

Question:

In an appraisal review assignment that includes the reviewer's own opinion of value, is the reviewer required to use the same scope of work as the original appraiser?

Response:

No. Standards Rule 3-1(c) states, in part:

In developing an appraisal review, the reviewer must:

...(c) identify the scope of work to be performed;

Comment: ...When the scope of work of the assignment includes a requirement for the reviewer to develop his or her own opinion of value, the following apply:

- ***The reviewer's scope of work in developing his or her own opinion of value may be different from that of the work under review.*** (Bold added for emphasis)

For example, the scope of work in the original appraisal may have included an interior and exterior inspection of the subject property, and the scope of work for the appraisal review may include only

an exterior inspection or no inspection at all.

Question:

Recently one of my appraisal reports was reviewed. The review report contained information that could not have been available to me at the time I completed my appraisal report. The reviewer used this additional information to discredit my opinion of value. Is this appropriate?

Response:

No. Standards Rule 3-1(c) allows a reviewer to use additional information

...that was not available to the original appraiser in the development of his or her value opinion; however, the reviewer must not use such information as the basis to discredit the original appraiser's opinion of value. (Bold added for emphasis)

Question:

In an appraisal review assignment for which the reviewer develops his or her own opinion of value, is it permissible for the reviewer to use an effective date that differs from the work under review?

Response:

Yes. The Comment to Standards Rule 3-1(c) states, in part:

The effective date of the reviewer's opinion of value may be the same or different from the date of the work under review.

Question:

I have been asked to provide a client with a "condition and marketability" report on a residential property. I am to complete a form used by some lenders and secondary market participants. Since this assignment is part of appraisal practice (because I am providing this service as an appraiser), must I conform with the requirements in Standards Rule 1-5(a) to, *analyze all agreement of sale, options, or*

listings of the subject the subject current as of the effective date of the appraisal; and (b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal?

Response:

No. Standards Rule 1-5 only applies to the development of a real property appraisal. The assignment described in this question is not an appraisal since developing an opinion of value is not part of the assignment. While the requirements of STANDARD 1 are not applicable, USPAP obligations for ethical behavior and competent performance do apply to the assignment.

Question:

I was recently asked to update an appraisal performed by another appraiser who works for a different appraisal company. Can I prepare an update if the original appraisal was performed by another appraiser?

Response:

Yes. Advisory Opinion 3 provides advice on how such an assignment can be performed in conformance with USPAP.

Question:

I received a request to update an appraisal I previously completed. The original report was issued as a Self-Contained Appraisal Report. Am I required to use the same reporting format in my update?

Response:

No. Advisory Opinion 3 (AO-3) states, in part:

The new report is not required to have the same level of detail as the original report- i.e. a different reporting option may be used. However, the new report must contain sufficient information to be meaningful and not misleading to the intended users. (Bold added for emphasis)



Disciplinary Actions

Jessica Alsobrook, Unlicensed
Humboldt, TN

Violations:

T.C.A. 62-39-103 - Unlicensed
Solicitation as an Appraiser.

Consent Order:

Civil Penalty \$250.00

Stanley G. Franks, CR-884
Savannah, TN

Violations:

T.C.A. 62-39-329
Violations of USPAP

Consent Order:

Civil Penalty \$300.00

John T. Jordan, CG-120
Cordova, TN

Violations:

T.C.A. 62-39-329
Violations of USPAP

Consent Order:

Civil Penalty \$250.00
Course in Sales Comparison

Aubrey D. Springer, CG-1311
Florence, AL

Violations:

T.C.A. 62-39-329
Violations of USPAP

Consent Order:

Civil Penalty \$250.00

Joshua Dobson, TR-2852
Kimball, TN

Violations:

T.C.A. 62-39-103 - Unlicensed
Appraiser

Agreed Order:

Civil Penalty \$250.00

Robert Beck Jr., TR-2695
Nashville, TN

Violations:

T.C.A. 62-39-103 – Representation as
Licensed Appraiser

Consent Order:

Cease Ads as Licensed - When
Licensed, Submit Examples of Ads

Ronnie Gallaway
Louisville, KY

Violations:

T.C.A. 62-39-103
Appraising Without a License in TN

Consent Order:

Civil Penalty \$500.00

James Passons, CG-522
McMinnville, TN

Violations:

T.C.A. 62-39-329
Violations of USPAP

Consent Order:

Course in Appraisal Procedures

Members of the Commission

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Portland

Daryl Nelkin, Vice Chairman
Sevierville

Gary Standifer, Appraiser Member
Brentwood

Sam Pipkin, Appraiser Member
Knoxville

Douglas Blackburn, Appraiser Member
Franklin

Dr. Reginald Peyton, Public Member
Memphis

Dr. Richard Evans, Educator Member
Germantown

John Bullington, Appraiser Member
Johnson City

Jerry Shelton, Appraiser Member
Atwood

Commission Meeting Dates for 2003

May 12, 2003	Room 160
June 09, 2003	Room 160
July 14, 2003	Room 640
August 11, 2003	Room 160
September 8, 2003	Room 160
October 13, 2003	Room 640
November 10, 2003	Room 160
December 8, 2003	Room 160

Please note that all meeting dates are tentative and may be cancelled at any time. Unless otherwise noted, the Commission meetings are scheduled to be held at 500 James Robertson Parkway, Nashville, Tennessee. Meetings begin 9:00a.m. The public is invited to attend. Please call the Commission office to verify that the meeting will be held on the date scheduled.

Staff Members

Sandra S. Moore
Administrative Director

Joyce Branham
Administrative Assistant

Edith Johnson
Administrative Assistant

Dorris O'Brien
Licensing Technician

The Tennessee Department of Commerce and Insurance is committed to principles of equal opportunity, equal access, and affirmative action. Contact the EEO Coordinator or ADA Coordinator (615) 741-0481, for TDD (615) 741-7190.

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VISIT OUR WEBSITE!



<http://www.state.tn.us/commerce/boards/treac>

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